

Financial Statements
Northern Lakes Community
Mental Health Authority

September 30, 2004



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Northern Lakes Community Mental Health Auth	County Grand Traverse
Audit Date 9/30/04	Opinion Date 1/18/05	Date Accountant Report Submitted to State: 3/22/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.			
Street Address 308 Gratiot Avenue		City Alma	State MI
		ZIP 48801	
Accountant Signature <i>William C. Roslund, Roslund Prestage & Co. P.C.</i>			Date 3/22/05

Northern Lakes Community Mental Health Authority
Table of Contents
September 30, 2004

Independent Auditor's Report	
Management's Discussion and Analysis	I-V
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5-6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Statement of Net Assets – Proprietary Funds	8
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	9
Statement of Cash Flows – Proprietary Funds	10
Notes to the Financial Statements	11-28
Required Supplemental Information:	
Budgetary Comparison Schedules	29-30
Other Supplemental Information:	
Individual Fund Statements:	
Statement of Personnel Expenditures	31
Statement of Operating Expenditures	32
Government Auditing Standards and OMB Circular A-133 Audit Reports	33-36
Schedule Of Expenditures Of Federal Awards	37
Schedule Of Findings And Questioned Cost	38



INDEPENDENT AUDITOR'S REPORT

Northern Lakes Community Mental Health Authority
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northern Lakes Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 18, 2005 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages I-V, and budgetary comparison information on pages 29-30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 18, 2005

**MANAGEMENT DISCUSSION
AND ANALYSIS**

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2004
Management's Discussion and Analysis

Introduction

The management of Northern Lakes Community Mental Health Authority (NLCMH) presents the following overview and analysis of financial activities during the past fiscal year. NLCMH was created as a Mental Health Authority effective October 1, 2003 by the joint actions of Boards of Commissioners for the following counties in the State of Michigan: Crawford, Grand Traverse, Leelanau, Missaukee, Roscommon and Wexford. Northern Lakes Community Mental Health Authority replaced the former Great Lakes Community Mental Health and North Central Community Mental Health as a merged organization.

The previous organization's assets and liabilities were transferred to Northern Lakes Community Mental Health. Because NLCMH is a new organization, comparisons with previous years financial information are not displayed in the financial statements. A comparison chart is provided in this management and discussion and analysis section.

Basic Financial Statement

Two types of financial statement are provided: **Government – Wide Statements** and **Fund Statements**.

The **Government-Wide** statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information of all of NLCMH's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an *accrual* basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The **Fund Statements** report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. NLCMH, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2004
Management's Discussion and Analysis

These funds are divided into two categories: governmental funds and proprietary funds.

Governmental funds has a narrower focus than that of the government-wide financial statement in that its focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

Proprietary funds are internal service funds, which are held as a self-insurance against future risk. These funds consist of state of Michigan Medicaid and General Funds and accumulated interest that must be held for future risk or used to provide authorized services to eligible persons.

The accompanying Notes to Financial Statements are an integral part of our financial statements. They give the opportunity to expound on any account, activity, or area that clarification would be beneficial or required. The notes report our policies, compliance, and responsibilities of not only the current audited year but also of responsibilities we have entered into.

Comparison with Prior Year

The value of current assets, mostly cash on hand and investments dropped by over 6% from the previous year, however, payroll dates and contract advances and contract payments have an impact on that amount. The average daily cash balance was \$12,982,855 during the fiscal year, which can be represented with a trend line that demonstrates a slight growth. The value of non-current assets grew due to a reassessment and appraisal of properties received by NLCMH from the merger. All properties and vehicles are properly reflected at their depreciated value in the "Invested in Capital Assets" line.

There was a growth in liabilities related to inpatient services, while other liabilities were slightly lower than the previous year.

Net assets that are reserved dropped as result of fewer Medicaid savings and general fund carry forward dollars. Those dollars were consumed in maintaining services. Over a million dollars less in carry-forward and saving dollars existed at the end of 2004 than at the end of 2003.

There was a 1.5 million dollar growth in the unreserved and undesignated fund balance, which was a very positive change that gives NLCMH more than one month's worth of operation in terms of unreserved fund balance.

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2004
Management's Discussion and Analysis

**Chart Comparison With Prior Year
Fiscal Year Ended 9/30/2004**

	Northern Lakes CMH Fiscal Year Ended 9/30/2004	Combined Great Lakes and North Central CMH Fiscal Year Ended 9/30/2003
Assets		
Current Assets	\$ 11,467,002	\$ 12,149,072
Non Current Assets	\$ 5,123,771	\$ 3,404,463
Total Assets	\$ 16,590,773	\$ 15,553,535
Liabilities		
Current Liabilities	\$ 3,709,031	\$ 3,822,351
Non Current Liabilities	\$ 1,044,326	\$ 920,962
Total Liabilities	\$ 4,753,357	\$ 4,743,313
Net Assets		
Invested in Capital Assets	\$ 4,018,733	\$ 3,404,463
Reserved	\$ 2,631,396	\$ 3,761,068
Unreserved Undesignated	\$ 5,187,287	\$ 3,644,691
Total Net Assets	\$ 11,837,416	\$ 10,810,222
Revenues		
State Grants	\$ 10,379,989.00	\$ 9,453,656.00
Federal Grants	\$ 878,256.00	\$ 729,780.00
County Appropriations	\$ 991,723.00	\$ 1,035,557.00
Charges for Services	\$ 33,985,673.00	\$ 33,984,141.00
Interest, Rents, and Other	\$ 226,601.00	\$ 419,283.00
Total Revenues	\$ 46,462,242.00	\$ 45,622,417.00
Expenditures		
Personnel Costs	\$ 15,429,160.00	\$ 14,309,146.00
Operating Expenditures	\$ 31,065,873.00	\$ 28,938,057.00
Debt Service Principal and Interest	\$ 71,255.00	\$ 274,792.00
Total Expenditures	\$ 46,566,288.00	\$ 43,521,995.00
Revenues Over (Under) Expenditures	\$ (104,046.00)	\$ 2,100,422.00

Revenues are earned only when they are used for services for the "Charge for Services" category as displayed in the above chart and does not reflect available funds. Available funds through Medicaid have actually decreased by over 3% between FY2003 and FY2004.

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2004
Management's Discussion and Analysis

Personnel costs were up last year, although some of that was from an additional pension payment of \$800,000 along with the elimination of 5 Staff positions that were paid a substantial amount of earned leave.

The net of \$104,046 expenditures exceeding revenues for the FY 2003/04 was better than budgeted or anticipated.

Strength of Financial Position

Changes in financial position, which help ensure the agency's future ability to provide services, were:

1. Continued services at approximately prior years levels despite the loss of substantial Medicaid funds.
2. Eliminated the ongoing cost of five administrative and management positions.
3. Achieved a Medicaid Savings and General Fund carry-forward of over \$700,000, which is needed to stabilize or continue services.
4. Deposited an additional \$800,000 into the under-funded defined benefit pension from Great Lakes Community Mental Health.
5. Increased the unreserved and undesignated fund balance by over \$1.5 million.

Change in Budget during the fiscal year:

In December of 2003, the Michigan Department of Community Health changed the amount of available Medicaid funding throughout the State. For NLCMH, there was a \$2.2 million annual dollar reduction that equated to about 5% of Medicaid funding phased in at 3 quarters of the year. Approximately \$600,000 of that was replaced through a General Fund increase and the population of people with coverage has also grown resulting in both service demand and new available funding. NLCMH changed its operating budget in February to accommodate this reduction and to recognize Medicaid services provided by West Michigan Community Mental Health and Northern Michigan Substance Abuse Services. A permanent reduction of approximately \$200,000 in operations was made along with commitment of one-time Medicaid savings dollars to stabilize services for the remainder of the year.

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2004
Management's Discussion and Analysis

About the Future

NLCMH is attempting to recover the loss of Medicaid to other State of Michigan counties by maintaining services at levels that existed before the loss notification was received. In the fiscal year starting October 1, 2005, the amount of Medicaid will again be redistributed based on the services reported in fiscal year 2003/04. At this point, it can only be speculated on whether that approach will be successful. If it is not, there still is a "safety valve" in place via the remaining Internal Service Funds that will allow a planned reduction in services. Since virtually all services currently offered are an entitlement to Medicaid eligible consumers, it will be a very difficult process to determine where reductions can be made if that were to become necessary.

The State of Michigan continues to experience financial difficulties. In the current year, services will require a state tax starting in August, which will produce a stable amount of revenue from the State for next year.

A recently released State Audit of the former Great Lakes Community Mental Health may require some policy revisions and may result in retroactive paybacks to the State of Michigan. The most significant issue is the lease of Northern Lakes Traverse City office. The space is leased from the Foundation for Mental Health, and the lease is not acceptable by the State because of the relationship that exists between the two organizations. Settlement according to the State Audit findings would result in NLCMH purchasing the building and not being reimbursed for the land the building and parking lot is on.

NLCMH has entered into a contract with Creative Socio Medics to provide software for management information purposes. This is a long-term commitment that involves a significant amount of resources to accomplish one information system for services provided in the 6 Counties.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$8,968,316
Investments	1,498,028
Due from Other Governmental Units	481,952
Security Deposits	<u>518,706</u>
Total Current Assets	11,467,002
Noncurrent Assets	
Cash and Cash Equivalents - Restricted	863,645
Capital Assets - Depreciable, Net	<u>4,260,126</u>
Total Assets	<u>16,590,773</u>
Liabilities	
Current Liabilities	
Accounts Payable	2,452,633
Due to Other Governmental Units	141,516
Accrued Wages and Other Payroll Liabilities	1,004,266
Other Liabilities	49,904
Current Portion of Long-Term Debt	60,712
Noncurrent Liabilities	
Compensated Absences	863,645
Notes Payable	<u>180,681</u>
Total Liabilities	<u>4,753,357</u>
Net Assets	
Reserved for Risk Management	2,180,961
Reserved for Medicaid Savings	450,435
Invested in Capital Assets, Net of Related Debt	4,018,733
Unreserved and Undesignated	<u>5,187,287</u>
Total Net Assets	<u><u>\$11,837,416</u></u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Functions	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities				
Health & Welfare - Mental Health	<u>\$46,979,611</u>	<u>\$33,985,673</u>	<u>\$12,373,287</u>	(\$620,651)
General Revenues				
Unrestricted Investment Earnings				103,282
Restricted Investment Earnings				<u>25,574</u>
Total General Revenues and Contributions				<u>128,856</u>
Change in Net Assets				(491,795)
Prior Period Adjustments				1,518,989
Net Assets - October 1				<u>10,810,222</u>
Net Assets - September 30				<u>\$11,837,416</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2004

	General Fund
Assets	
Cash and Cash Equivalents	\$8,968,316
Cash and Cash Equivalents - Restricted	863,645
Investments	1,498,028
Due from Other Governmental Units	481,952
Security Deposits	518,706
Total Assets	<u>\$12,330,647</u>
Liabilities	
Accounts Payable	\$2,452,633
Due to Other Funds	2,180,961
Due to Other Governmental Units	141,516
Accrued Wages and Other Payroll Liabilities	1,310,540
Other Liabilities	49,904
Total Liabilities	<u>6,135,554</u>
Fund Balance	
Reserved for Security Deposits	518,706
Reserved for Medicaid Savings	450,435
Unreserved and Undesignated	5,225,952
Total Fund Balance	<u>6,195,093</u>
Total Liabilities and Fund Balance	<u>\$12,330,647</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Total fund balance - governmental funds	\$6,195,093
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	8,736,897
Deduct: accumulated depreciation	(4,476,771)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Deduct: Loans payable	(241,393)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	2,180,961
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Compensated Absences	(557,371)
Net assets of governmental activities	<u>\$11,837,416</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Revenues	General Fund
State Grants	
Department of Community Health Contract	\$6,723,518
Adult Benefit Waiver	771,546
MI Child	40,904
Title XX	9,002
Food Stamps	35,237
Birchwood	307,882
Elderly Waiver	2,214,296
Alzheimers Grant	16,652
Respite	100,000
PAS / ARR Grant	146,616
DCH Block Grants	14,336
Total State Grants	10,379,989
Federal Grants	
DCH Block Grants	180,394
Strong Families / Safe Children Grant	39,480
Drop In Center	9,260
Jail Diversion	63,090
Wraparound	37,750
Path Homeless Housing	64,000
Case Management	44,433
PAS / ARR Grant	439,849
Total Federal Grants	878,256
Contributions - Local Units	
County Appropriations	991,723
Charges for Services	
Medicaid	33,031,517
Medicaid - CMW	273,910
Client and Third Party Pay	680,246
Total Charges for Services	33,985,673
Interest and Rents	
Interest	103,282
Other Revenue	123,319
Total Revenues	46,462,242

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Expenditures	General Fund
Health & Welfare - Mental Health	
Personnel Costs	\$15,429,160
Operating Expenditures	31,065,873
Debt Service - Principal	57,614
Debt Service - Interest	13,641
	<hr/>
Total Expenditures	46,566,288
	<hr/>
Revenues Over (Under) Expenditures	(104,046)
Fund Balance, October 1	6,237,592
Prior period adjustment	61,547
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Fund Balance, September 30	\$6,195,093
	<hr/>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Net change in fund balances - total governmental funds	(\$104,046)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	-
Deduct: depreciation expense	(300,502)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: interest income	25,574
Payment of principal on long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	
Add: principal paid on notes payable	57,614
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add: reduction in accrued interest	13,641
Less: increase in accrual for compensated absences	(184,076)
Change in net assets of governmental activities	<u>(\$491,795)</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2004

	Governmental Activities Internal Service Fund
Assets	
Due From Other Funds	<u>\$2,180,961</u>
Net Assets	
Restricted	<u>\$2,180,961</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Governmental Activities Internal Service Fund
Operating Income	
Interest	<u>\$25,574</u>
Net Income	25,574
Net Assets, Beginning of Year	2,160,384
Prior Period Adjustment	<u>(4,997)</u>
Net Assets, End of Year	<u><u>\$2,180,961</u></u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Governmental Activities Internal Service Fund
Cash Flows From Operating Activities	
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
(Increase) Decrease In:	
Due From Other Funds	(\$25,574)
Cash flows from investing activities	
Interest revenue	25,574
Net increase (decrease) in cash and cash equivalents	-
Cash and cash equivalents - beginning of year	-
Cash and cash equivalents - end of year	-
Reconciliation of operating income to net cash provided by (used for) operating activities:	
Operating income (loss)	-

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Northern Lakes Community Mental Health (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

In June of 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Authority’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority’s activities.
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Authority has implemented the provisions of Statement No. 34 effective October 1, 2003.

Reporting Entity

Great Lakes Community Mental Health Authority (serving Grand Traverse and Leelanau Counties) and North Central Community Mental Health Authority (serving Crawford, Missaukee, Roscommon, and Wexford Counties) establish Northern Lakes Community Mental Health Authority when they signed an *Enabling Resolution and Agreement*, effective October 1, 2003.

The Authority operates under the provisions of Act 258 - Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the Grand Traverse, Leelanau, Crawford, Missaukee, Roscommon, and Wexford Counties who meet eligibility and other criteria. As the community mental health services provider for the above mentioned counties, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Authority. *Governmental activities* normally are supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds, as applicable. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2004, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are stated at cost.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Receivables And Payables Between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are recorded as an expenditure when purchased.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Capital Assets

Capital assets, which include buildings, equipment, software and vehicles, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	10-40
Equipment and Furnishings	5-7
Computer Equipment	3-5
Software	3-5
Vehicles	5
Land	Not Depreciated

Deferred Revenue

Deferred revenues arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability. These restricted assets are held in a separate cash account with local financial institutions.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings, compensated absences and post-employment benefits are examples of the latter.

Grants

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

B. Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2004, The Authority incurred expenditures in excess of the amounts appropriated as shown on the schedule in the back of this report as unfavorable variances.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

NOTE 3 - DETAIL NOTES

A. Cash And Investments

At September 30, 2004, the carrying amount of the Authority's cash and cash equivalents was as follows:

Cash & Cash Equivalents	2004
Petty Cash	\$1,714
Checking, Savings, And Money Market Accounts	9,830,247
Totals	\$9,831,961

The Authority also has \$500,000 in cash held at a local bank as a security deposit on the 105 Front Street building. This amount is included as a security deposit on the balance sheet.

At September 30, 2004 the Authority's carrying amount of deposits was \$9,830,247 and the bank balance was \$11,207,036. The difference between the carrying amount and the bank balance is due to outstanding deposits and checks. Of this bank balance, \$200,000 was covered by federal depository insurance and the remaining balance was uninsured and uncollateralized.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

The carrying amount shown above approximates their fair value.

Restricted Cash

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30th. The Authority holds in a separate bank account funds set aside for the payment of these compensated absences liability. The use of these funds is restricted to payment of compensated absences as they come due.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Investments

In accordance with GASB Statement 3, investments are classified into three categories of credit risk as follows:

- Category 1: Insured or collateralized with securities held by the Authority or its agent in the Authority's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.
- Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Authority's name).

Investment	Category 3	Carrying Amount	Market Value
US Government Obligations	\$1,498,028	\$1,498,028	\$1,490,315

B. Due from Other Governmental Units

Due from other governmental units as of September 30th consists of the following:

Due From:	2004
State of Michigan – OBRA	\$125,747
State of Michigan – Elderly Waiver	52,027
State of Michigan – Child Waiver	162,073
State of Michigan – Wraparound	17,723
State of Michigan – Various Other DCH Grants	124,382
Total	\$481,952

C. Security Deposits

Security deposits represent a payment made as security on a long-term building lease as well as other deposits as follows:

Security Deposit	2004
Client Security Deposits	\$18,706
Security Deposits - Foundation	500,000
Total	\$518,706

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

D. Capital Assets

Capital asset activity for the year ended September 30, 2004 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$160,000	-	-	\$160,000
Building & Improvements	5,673,075	-	-	5,673,075
Vehicles	844,293	-	-	844,293
Equipment	2,059,529	-	-	2,059,529
Sub-total	8,736,897	-	-	8,736,897
Accumulated Depreciation	(4,176,269)	(\$300,502)	-	(4,476,771)
Totals	\$4,560,628	(\$300,502)	-	\$4,260,126

Depreciation expense in the amount of \$300,502 was charged to Health and Welfare – Mental Health Program. The beginning balances shown in the above table were adjusted to reflect the corrected amounts resulting from a detailed inventory of the fixed assets completed during the year. The total adjustment to the asset cost and accumulated depreciation resulted in a net increase of \$1,156,165.

E. Due To Other Governmental Units

Due to other governmental units as of September 30th consist of the following:

Due To:	2004
State Of Michigan – Inpatient	\$141,516

F. Other Liabilities

This liability consists primarily of amounts due for the flexible spending accounts for child care and medical expenses.

G. Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September and includes employer payroll taxes as follows:

Liability	2004
Wages	\$479,862
Longevity	16,635
FICA	36,733
Pension Payable	471,036
Total	\$1,004,266

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

H. Leases

Northern Lakes Community Mental Health Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements. The following is a summary of the more significant leases.

FRONT STREET BUILDING

The Authority has entered into a long-term lease agreement for their community mental health facilities. The lease is for a period of 23 years with the first lease payment due on January 20, 2001. The terms of the lease calls for monthly rental payments of \$43,122. The monthly rent payments shall be appropriately adjusted from time to time to compensate the Landlord for schedule rate adjustments to the bonds and any unanticipated additional cost, expenses, or losses incurred by the Landlord. See related "Commitments" note.

RESIDENTIAL FACILITIES

The Authority has entered into various building leases for the purpose of providing residential facilities. The following is a summary of some of the terms of those leases:

Description/Location	Date of Lease	Length of Lease	Monthly Payments
Jones Lake Road, Grayling Twp.			\$2,022
Seneca Street, Cadillac	7/14/91	240 months	2,459
Evergreen, Roscommon	3/9/03	60 months	1,325
Woodland, Houghton Lake	11/9/02	60 months	1,350
Pearl Street, Cadillac	3/9/02	36 months	2,767
East Bay, Traverse City	7/27/04	36 months	2,752
Elmwood, Traverse City	2/20/98	108 months	2,660

The following is a schedule of future minimum rental payments required under the above operating leases that have initial or remaining noncancelable lease terms as of September 30, 2004:

Year Ending September 30 th	Minimum Payments
2005	\$592,664
2006	545,299
2007	545,299
2008	545,299
2009	545,299
2010-2014	2,587,322
2015-2019	2,587,322

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

I. Long-Term Debt

Furniture and Equipment Note

On February 15, 2001 the Authority secured a promissory note with Huntington National Bank in the amount of \$250,000 for the purpose of purchasing furniture and equipment. The terms of the note call for 60 monthly payments of \$4,760 and the interest rate is stated at 5.3%.

Group Home Note

On December 4, 2001 the Authority secured a promissory note with Huntington National Bank in the amount of \$180,000 for the purpose of purchasing a group home. The terms of the note call for 59 monthly payments of \$1,178 starting on January 10, 2002 and one last payment estimated at \$151,309 due on December 10, 2006. The interest rate is stated at 4.81%.

The remaining payments, including interest of \$20,091, due for each year on the above loans are as follows:

Fiscal Year Ending September 30th	Payments
2005	\$71,254
2006	37,402
2007	152,828
Thereafter	None

Compensated Absences

Vacation

North West Staff - The Authority's policy allows employees to accumulate up to 240 hours of vacation time. Any excess accumulation shall be forfeited. Amounts accumulated are to be paid to an employee and recognized as an expense either when vacations are actually taken or upon termination of employment.

South East Staff – The Authority's policy allows full time employees to accumulate vacation time at various rates, depending on the employee's length of service with the Authority. Amounts accumulated up to a maximum of 33 days are to be paid to the employee and recognized as an expense either when paid time off is used or upon termination of employment.

The vacation pay liability is \$562,752 at September 30, 2004, and includes related FICA.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Personal - The Authority's policy allows employees 16-64 hours of personal leave per year depending on location. Any balance of unused personal leave hours remaining shall be paid at the employee's prevailing hourly rate. Unused personal leave is paid out upon termination.

The personal leave pay liability is \$105,135 at September 30, 2004, and includes related FICA.

Sick - Upon retirement (eligible to begin drawing a benefit payment from MERS or Social Security) or death of the employee, the Authority shall pay to the employee (or the employee's estate) 50% of the employee's unused frozen sick hours up to a maximum of 120 days (or 60 days) at the employee's regular rate of pay at the time of retirement or death.

The sick pay liability is \$195,758 at September 30, 2004, and includes related FICA.

Change in Long-Term Debt

The following is a summary of the changes in the long-term debt for the year ended September 30, 2004:

Debt	Beginning Balance	Additions	Reductions	Ending Balance
Promissory Note - \$250,000	\$128,830	-	\$51,532	\$77,298
Promissory Note - \$180,000	170,177	-	6,082	164,095
Compensated Absences	679,569	\$184,076	-	863,645
Totals	\$978,576	\$184,076	\$57,614	\$1,105,038

Interest expense for the year ended September 30, 2004 was \$13,641.

J. Fund Balance Reserves and Designations

A portion of the fund balance at September 30th has been reserved equal to the amount of the security deposits, since security deposits do not constitute "available spendable resources."

K. Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

L. Pension Plans

DEFINED BENEFIT PLAN

The Authority, (Northern Lakes Community Mental Health) contributes to the Michigan Municipal Employees Retirement System ("MMERS"), an agent multiple employer system administered by the MMERS retirement board that covers some of the employees of the Authority. The Authority's defined benefit plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. There were 67 active members at December 31, 2004, the most recent actuarial valuation for the Authority. The State of Michigan Public Act No. 427 of the Public Acts 1984 is the authority under which benefit provisions and obligations to contribute are established and amended.

Employees with 6-8 or more years of service are entitled to annual pension benefits beginning at normal retirement age (60). There are options for early retirement based on number of years of service. Normal benefits are 2.25% to 2.5% of final average compensation multiplied by total years of credited service.

Funding Policy

MMERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The funding policy of the Authority is to make contributions equal to the actuarially determined required annual contribution. There are no member contribution requirements. For the year ended September 30, 2004, the Authority contributed \$542,866 based on the monthly contribution requirements provided by the plan actuary. An additional contribution of \$800,000 was also made for the year ended September 30, 2004. The contribution requirements of the Authority and its members are established and may be added by the Retirement Board of MMERS. The Authority's annual pension cost was equal to these required and actual contributions. There was no net pension obligation at September 30, 2004.

Actuarial Valuation Assumptions

Valuation date	December 31, 2003
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll, open basis
Remaining amortization period	30 years
Asset valuation method	Cost
Investment rate of return	8.0%
Projected salary increases	4.5%

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

GASB 25 Information (as of December 31, 2003)

Retirees and beneficiaries currently receiving benefits	\$6,519,152
Terminated employees (vested former members) not yet receiving benefits	1,301,925
Current employees – Accumulated employee contributions including allocated investment income	12,453
Employer financed	8,764,801
Total actuarial accrued liability	16,598,331
Net assets available for benefits at actuarial value (Market value is \$11,148,754)	12,209,680
Unfunded (Overfunded) actuarial accrued liability	\$4,388,651

GASB 27 Information (as of December 31, 2003)

Fiscal year beginning	January 1, 2005
Annual required contributions (ARC)	\$595,404
Amortization factor used – underfunded liabilities (28 years)	.055889

Additional information regarding this plan can be obtained by requesting the publicly available financial statements from: Municipal Employees' Retirement System of Michigan, 447 N. Canal St., Lansing, MI 48917

DEFINED CONTRIBUTION PLAN

The Authority sponsors the "Northern Lakes Mental Health Defined Contribution Plan" created in accordance with the Internal Revenue Code Section 401 (a). Participants with 1,000 hours of service during a plan year vest 25% each year for the first four years of service and 100% vested thereafter. The Authority is required to contribute an amount equal to 7.5% of the participant's compensation.

The plan is administered by the third party trustees and plan provisions and contribution requirements can only be amended by authorization of the Board of Directors. As of September 30, 2004, there were 194 active employees. Total contributions amounted to \$460,748 for the year ended September 30, 2004. Employees do not contribute to the plan.

M. Commitments

In October 1987, the Foundation for Mental Health-Grand Traverse/Leelanau was organized for the following purposes:

- To support public charities in the area of mental health maintenance, education, prevention of mental health impairment, and to improve the quality of life.
- To operate for the benefit of and in support of the *Great Lakes Community Health Authority*, which is now part of *Northern Lakes Community Health Authority*.
- To accept and administer donations, contributions and gifts for the benefit of *Northern Lakes Community Mental Health Authority* or any other organizations that are a part of, or are affiliated with, the delivery or provision of community mental health services in the Counties of Grand Traverse and Leelanau, and are exempt from tax under Section 501(c) (3) of the Internal Revenue Code.
- To provide resources for any activities that will provide a direct benefit to, and improve the mental health and welfare of, the people in the Grand Traverse and Leelanau Counties.
- To operate solely as a non-profit corporation in such manner that no part of its net earnings will incur to the benefit of any member, trustee, officer or individual.

On September 24, 1999, the Authority entered into an agreement with the Foundation and a construction contractor for the construction of a new office building; construction was completed in 2001. The Foundation financed the construction via tax exempt Industrial Bonds that were purchased 100% by Huntington National Bank. The bonds are non-recourse to the Foundation and are secured primarily by an assignment of a lease rental payable through a 20 year, non-cancelable lease from the Authority. During the year ended September 30, 2001, the Authority paid a \$500,000 security deposit as a condition of the lease agreement entered into on December 1, 2000. The security deposit shall be returned in full to the Authority 60 months after the commencement of the lease term. The commencement date (date of occupancy) was January 20, 2001.

N. Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for liability, vehicle physical damage, and property and crime.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment expenses for each occurrence that is within the Authority's Self Insured Retention (SIR). The Authority's SIR is \$250 per vehicle for vehicle physical damage and \$250 per occurrence for property and crime.

The Authority's coverage limits include \$15,000,000 for liability, \$1,500,000 for vehicle physical damage, and between \$10,000 and \$200,000 for property and crime.

O. Affiliation

The Authority joined the Northwest Community Mental Health Affiliation to meet the requirements to secure a Medicaid Managed Care contract with the Michigan Department of Community Health (MDCH). The affiliation is comprised of Northern Lakes Community Mental Health Authority (serving Grand Traverse, Leelanau, Crawford, Missaukee, Roscommon, and Wexford Counties), and West Michigan Community Mental Health System (serving Mason, Lake, and Oceana Counties).

Effective October 1, 2002, North Central Community Mental Health Authority began contracting with the MDCH for Medicaid funding for the above mentioned nine (9) counties. North Central Community Mental Health Authority in turn sub-contracted with the other affiliation members for Medicaid services rendered in the respective counties.

P. Contingency

During the year ended September 30, 2002 the Department of Community Health completed an audit of the Great Lakes Community Mental Health Authority for fiscal years ending September 30, 1999 through 2001. As a result of that audit numerous audit issues have emerged and are currently progressing through various stages of dispute resolution, administrative appeal, and judicial review. The resolutions of these audit issues could have a material impact on the financial statements.

The Department of Community Health has not issued a report on their audit as of the date this report was issued. These financial statements do not reflect any contingent liabilities relating to these audit findings.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Q. Prior Period Adjustment

Prior period adjustments shown in this report represents the adjustment to net assets and fund balance due to the following:

Adjustments To Fund Balance	2004
Insurance refunds from prior years	\$87,421
DCH Cost settlement adjustments – Great Lakes CMH	(83,198)
Abatement of ISF	4,997
NMSAS ISF from Central CMH	35,311
Other	17,016
Total Increase (Decrease) To Fund Balance	\$61,547

Adjustment To Net Assets	2004
Insurance refunds from prior years	\$87,421
DCH Cost settlement adjustments – Great Lakes CMH	(83,198)
NMSAS ISF from Central CMH	35,311
Compensated absences liability included in fund financial statements	306,274
Other	17,016
Adjustments to net fixed assets	1,156,165
Total Increase (Decrease) To Net Assets	\$1,518,989

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
Revenues				
State Grants				
Department of Community Health Grant	\$5,825,067	\$8,099,685	\$6,723,518	(\$1,376,167)
Adult Benefit Waiver	635,304	750,000	771,546	21,546
MI Child	37,294	40,236	40,904	668
Title XX	9,002	9,002	9,002	-
Food Stamps	41,616	41,616	35,237	(6,379)
Birchwood	331,134	336,034	307,882	(28,152)
Elderly Waiver	2,225,607	2,225,607	2,214,296	(11,311)
Alzheimers Grant	16,661	16,661	16,652	(9)
Respite	100,000	100,000	100,000	-
PAS / ARR Grant	119,875	119,875	146,616	26,741
DCH Block Grants			14,336	14,336
Total State Grants	9,341,560	11,738,716	10,379,989	(1,358,727)
Federal Grants				
DCH Block Grants	202,510	213,264	180,394	(32,870)
Strong Families / Safe Children Grant	39,480	39,480	39,480	-
Drop In Center	11,250	11,250	9,260	(1,990)
Jail Diversion	63,090	63,090	63,090	-
Wraparound	50,000	50,000	37,750	(12,250)
Path Homeless Housing	64,000	64,000	64,000	-
Case Management	57,148	57,148	44,433	(12,715)
PAS / ARR Grant	359,625	359,625	439,849	80,224
Total Federal Grants	847,103	857,857	878,256	20,399
Contributions - Local Units				
County Appropriations	1,026,740	1,026,740	991,723	(35,017)
Charges for Services				
Medicaid	25,184,071	32,680,585	33,031,517	350,932
Medicaid - CMW	253,500	253,500	273,910	20,410
Client and Third Party Pay	757,428	759,428	680,246	(79,182)
Total Charges for Services	26,194,999	33,693,513	33,985,673	292,160
Interest and Rents	90,000	90,000	103,282	13,282
Other Revenue	144,654	154,654	123,319	(31,335)
Total Revenues	37,645,056	47,561,480	46,462,242	(1,099,238)

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Expenditures	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
Health & Welfare - Mental Health Current:				
Personnel Costs	\$15,098,317	\$15,098,317	\$15,429,160	(\$330,843)
Operating Expenditures	22,063,518	32,129,288	31,065,873	1,063,415
Debt Service - Principal	-	-	57,614	(57,614)
Debt Service - Interest	-	-	13,641	(13,641)
Total Expenditures	<u>37,161,835</u>	<u>47,227,605</u>	<u>46,566,288</u>	<u>661,317</u>
Revenues Over (Under) Expenditures	483,221	333,875	(104,046)	(437,921)
Fund Balance, October 1	6,237,592	6,237,592	6,237,592	-
Prior Period Adjustments	-	-	61,547	61,547
Fund Balance, September 30	<u>\$6,720,813</u>	<u>\$6,571,467</u>	<u>\$6,195,093</u>	<u>(\$376,374)</u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF PERSONNEL EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2004

Governmental Fund Types

	<u>General Fund</u>
Personnel Costs	
Salaries And Wages	
Fringe Benefits	\$10,353,800
	<u>5,075,360</u>
Total Personnel Expenditures	<u><u>\$15,429,160</u></u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF OPERATING EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2004

Governmental Fund Types

	<u>General Fund</u>
Operating Expenditures	
Professional fees and dues	\$414,081
Board per diem	24,181
Printing, publications, and advertising	83,002
Supplies	249,112
Capital outlay under \$5,000	228,696
Insurance	87,446
Travel - staff and board	148,463
Utilities	168,693
Rents	645,245
Repairs and maintenance	375,358
Software/firmware	88,056
Contractual services	27,242,323
Clubhouse food	34,302
Third meal	8,803
Client medical services and supplies	82,973
Vehicle expense	88,066
Other	182,135
Transportation - other	503,064
Respite care	146,851
Telephone	207,640
Staff Development	57,383
	<hr/>
Total Operating Expenditures	<u><u>\$31,065,873</u></u>

The notes to the financial statements are an integral part of this statement.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Northern Lakes Community Mental Health Authority
Traverse City, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northern Lakes Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Northern Lakes Community Mental Health Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northern Lakes Community Mental Health Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated January 18, 2005.

This report is intended for the information of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 18, 2005



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Northern Lakes Community Mental Health Authority
Traverse City, Michigan

Compliance

We have audited the compliance of Northern Lakes Community Mental Health Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to each of its major federal programs for the year ended September 30, 2004. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Northern Lakes Community Mental Health Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

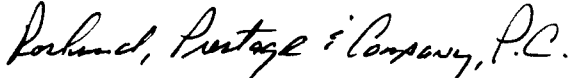
Internal Control Over Compliance

The management of Northern Lakes Community Mental Health Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 18, 2005

Northern Lakes Community Mental Health Authority
Schedule Of Expenditures Of Federal Awards
For The Year Ended September 30, 2004

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	(Accrued) Deferred Revenue At 10/1/2003	Current Year Receipts	Current Year Expenditures	(Accrued) Deferred Revenue At 9/30/2004	GPFS Federal Revenue Recognized	GPFS Page
Department of Health and Human Services									
Passed Through The Michigan Department of Community Health: Medical Assistance Programs - OBRA/PASARR Screening **	93.778	NA	NA	(\$98,029)	\$443,568	\$439,849	(\$94,310)	\$439,849	
Department of Community Mental Health Block Grants	93.958	04 B1 MI CMHS	\$253,084	-	100,589	180,394	(79,805)	180,394	
Strong Families / Safe Children	93.958	-	39,480	-	39,480	39,480	-	39,480	
Drop In Program Development	93.958	PCA #04-20472	11,250	-	7,925	9,260	(1,335)	9,260	
Jail Diversion	93.958	PCA #20136	63,090	-	45,811	63,090	(17,279)	63,090	
Case Management	93.958	PCA #20137		-	35,418	44,433	(9,015)	44,433	
Wraparound	93.958	20030026-01	50,000	(8,859)	28,886	37,750	(17,723)	37,750	
Total For 93.958				(8,859)	258,109	374,407	(125,157)	374,407	
Path Homeless Housing	93.150	SMX060023K	64,000	-	47,053	64,000	(16,947)	64,000	
TOTALS				(\$106,888)	\$748,730	\$878,256	(\$236,414)	\$878,256	5

Note: Beginning balance are amounts carried forward from the
Schedule of Expenditures of Federal Awards for Great
Lakes Community Mental Health Authority.

** The OBRA/PASARR Screening amounts shown above represents 75% of the actual amounts.

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COST
YEAR ENDED SEPTEMBER 30, 2004

A. SUMMARY OF AUDIT RESULTS

The auditor's report expresses an unqualified opinion on the basic financial statements of the Authority.

There were no reportable conditions disclosed as a result of the audit of the basic financial statements.

No instances of noncompliance material to the basic financial statements of the Authority were disclosed during the audit.

There were no reportable conditions disclosed during the audit of the major federal award programs.

The auditor's report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.

Audit findings relative to the major federal award programs for the Authority is reported in Part C of this report.

The programs tested as major programs included: Comprehensive Community Mental Health Services Block Grant, CFDA # 93.958, and OBRA/PASARR Screening, CFDA #93.778.

The threshold for distinguishing Types A and B programs was \$300,000.

The Authority was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

C. FINDINGS AND QUESTIONED COST - MAJOR FEDERAL AWARD PROGRAMS AUDIT.

None.



MANAGEMENT LETTER

Board of Directors
Northern Lakes Community Mental Health Authority
Traverse City, Michigan

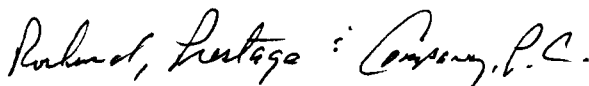
In planning and performing our audit of the financial statements for Northern Lakes Community Mental Health Authority for the fiscal year ended September 30, 2004, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated January 28, 2005 on the financial statements of Northern Lakes Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,



Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 28, 2005

Northern Lakes Community Mental Health Authority
Management Letter

Perform a Fraud Risk Assessment

In light of the wave of notorious frauds involving large organizations in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small organizations. In the 2002 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence reported from businesses with 100 or fewer employees was \$127,500, a proportionately larger loss than the \$97,000 median loss in organizations with 10,000 or more employees.

Whereas the highly publicized frauds at large public organizations like Enron, WorldCom, and HealthSouth involved fraudulent financial reporting, for small organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and there are inadequate controls to prevent or detect the fraud. To address this risk, we recommend that Northern Lakes Community Mental Health Authority (the Authority) perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Authority's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Authority, its environment, and its processes. The fraud risk assessment process should consider the Authority's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- Which individuals in the Authority have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate individuals with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of individuals with access to assets susceptible to misappropriation.
- What assets of the Authority are susceptible to misappropriation?

Northern Lakes Community Mental Health Authority
Management Letter

- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious individuals or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Assets can also be stolen by unauthorized trading in securities.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running it through as an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.
- What factors might indicate that the Authority has a culture or environment that would enable management or individuals to rationalize committing fraud?

Once areas vulnerable to fraud have been identified, a review of the Authority's systems, procedures, and existing controls relating to the identified areas should be conducted. The Authority should consider what additional controls need to be implemented to reduce the risk of fraud. There are two basic types of controls—those that are designed to address specific types of fraud, and those that are more general in nature. General controls that reduce an individual's ability to commit fraud without detection include the following:

- Requiring Periodic Job Rotation and Mandatory Vacations. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- Preparing and Reviewing Monthly Financial Statements in a Timely Fashion. As previously mentioned, many frauds create accounting anomalies. Thus, one way to detect fraud on a timely basis is to review monthly financial statements and investigate unusual variances. If possible, these statements should include budget, prior period, and year-to-date amounts to help identify variances. Performing the review and investigation on a timely basis helps minimize the extent of potential fraud.

Northern Lakes Community Mental Health Authority
Management Letter

- Implementing an Employee Hotline. Tips and complaints from fellow employees or vendors have enabled many organizations to discover occurrences of fraud. Anonymous telephone hotlines allow honest employees and vendors who may fear retaliation from fraud perpetrators to report unethical behavior without risking exposure.

Examples of controls to prevent or detect specific types of fraud include the following:

- Independent Checks of work performed. Independent checks test another employee's work, such as by having a second employee re-perform or test an employee's work.
- Separation of Duties. Separation of duties is one of the most effective controls to prevent or detect misappropriations of assets. When possible, incompatible duties should be performed by different employees. For example, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people in the Authority to the extent possible.

When assessing the Company's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the Authority may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.

Review Payroll Records for Unusual Matters

Performing a careful review of the payroll register (that is, the schedule showing the calculation of gross pay, deductions, and net pay) and payroll check register can highlight several types of payroll fraud. We recommend that an appropriate person periodically make such a review, being alert for unusual matters that might suggest fraud, such as the following:

- Duplicate names or addresses.
- Names of former employees.
- Math errors (which may indicate diversion of payroll or payroll taxes).
- Unusual pay rates or numbers of hours worked.
- Factors that may indicate ghost employees.

Northern Lakes Community Mental Health Authority
Management Letter

Cash Accounts

During our review of the cash and investment accounts we noticed they are held under four different names, all of which are variation of Great Lakes Community Mental Health Authority, North Central Community Mental Health Authority, and Northern Lakes Community Mental Health Authority.

We recommend that all cash and investment accounts be held in the name of Northern Lakes Community Mental Health Authority

Mail Opening Procedures

Good internal controls should include procedure regarding the receipt and opening of the mail. Assigning staff members to this function that are not a part of authorizing, processing, or recording transactions is necessary to achieve adequate segregation of duties, thus reducing the chance of errors or irregularities.

During our review of internal controls we found that some mail addressed to staff is not opened by office personnel normally assigned to this function. This mail is forwarded on to the addressee to be opened by them. We became aware that some deposits were delayed and an opportunity to respond to a Request For Proposal was missed due to a delay in opening mail by staff.

We recommend that management review the mail opening and routing practices and make the necessary changes to assure that all mail is opened and forwarded on to the appropriate individuals in a timely manner.

Budget

Budget-To-Actual statements are required to be presented in the audit report on the modified accrual basis. Budgets often are prepared to comply with the reporting format requested by the Department of Community Health and may include items that are found in both the full accrual and modified accrual basis (i.e., principal payments, capital outlay, depreciation, compensated absences, gains and losses on disposal of assets, loan proceeds).

We recommend that management review, and modify if necessary, the annual budget to assure that it is prepared on the modified accrual basis for presentation in the annual audit report. This budget should then be adopted by the board in addition to, if necessary, any other budgets adopted on another basis.